time to denounce "rumors" of a banking crisis, but, on Dec. 1, there was near-paralysis on the Moscow interbank exchange system.

Many of the top Russian banks have new troubles because of a peculiar derivatives operation, related to the agreement on rescheduling $31 billion of old Soviet debt, which was signed on Dec. 2 between Russia and the London Club of commercial banks. Some $28 billion of those debts were converted into long-term bonds, called VEB bonds after Vneshekonombank, the Russian Foreign Economic Bank. The VEB bonds were being bought and sold on a secondary debt market, already some months ago. Russian banks were the heavy buyers. They snapped up the VEB bonds at 70% of face value, betting on a rise in price, and tidy profits, after the London Club agreement were signed. If sold now, however, the VEB bonds would fetch only 50-53% of face value.

Once the London Club agreement is signed, on Dec. 5, these bonds must be recorded on the balance sheets of the Russian banks, showing the loss. Vneshekonombank Chairman Andrei Kostin, who negotiated the London Club agreement, said on Dec. 2 that the losses will be large, but "only in the tens of millions of dollars, not in the hundreds of millions of dollars." However many grains of salt need to be taken with Kostin's figures: The Russian banks will either have to sell the bonds at a hefty loss, or try to confine their losses to the balance sheet, hanging onto the VEB bonds in a gambler's hope that they will rise at some later point.

Panic

Despite the Russian government's scavenger hunt for a bailout, no big package has come together. The IMF is still refusing even to speed up disbursement of the suspended $700 million tranche, unless Russia meets new standards of austerity. Martin Gilman, head of the IMF Moscow office, said of the Dec. 1 mission to Russia, that new disbursements any time before February were unlikely, unless "the Russian authorities were to propose a series of measures, particularly in the fiscal area, that would significantly strengthen the package now under discussion."

The dilemma of the IMF and affiliated financiers was expressed in the Dec. 2 lead editorial of the London *Financial Times,* which warned that the Russian financial crisis, particularly any "sharp drop in the ruble," could have "dangerous political consequences" and "could even precipitate the downfall of the government." In the event of such a collapse, "the risks to global political stability are evident," but, the *Financial Times* fretted, the IMF cannot ignore Russia's fulfillment of conditionalities and simply step in as lender of last resort, for "if it gave in to Russia, it would be inundated with requests for help from other countries"—which is the case already!

The Jan. 1 wage arrears deadline looms, without the means yet secured, for paying the more than $1.5 billion due to state sector workers (out of a total of $10 billion public and private sector unpaid wages). Deputy Prime Minister Oleg Sysuyev said on Nov. 25, that the government would likely fail to do so. A week later, Sysuyev had to leave the capital to head an investigation in the Kuzbass, the politically volatile Siberian coal district where the worst coal mine accident in Russian history took the lives of 67 miners. The Russian coal industry is deep in arrears, for maintenance as well as labor, and early reports blamed faulty equipment for the methane explosion.

Yeltsin returned to Moscow on Dec. 4 from a state visit in Sweden, during which he exhibited the worst signs of fatigue and confusion since his return from heart surgery and pneumonia nearly a year ago. He rushed to the Duma on the morning of Dec. 5, where he motivated adoption of the government's 1998 budget draft in the first reading (it passed, by a vote of 239-137), with words that referenced the global dimension of the crisis in his country, "Not only Russia, but the whole world, is awaiting the Duma's decision, because the whole world financial system is in fever."

Free-trader Klaus falls in the Czech Republic

by Angelika Beyreuther-Raimondi

Over the weekend of Nov. 29-30, the Czech government of Prime Minister Vaclav Klaus fell, over a classic scandal of political-financial donations. One company which had profitted from a privatization decision of the government, "donated" a sum of money, out of gratitude for receiving privileged treatment, and the money landed in an account of the governing party, the Civic Democratic Forum (ODS). The chairman of the party, Klaus, claims he knows nothing about it, while his vice chairman and former foreign minister, Josef Zieleniec, who had resigned suddenly in October, claims that Klaus was informed about all aspects of the millions of dollars worth of donations from the very beginning. Now, accusations are growing in the Czech media, that the ODS has illegal bank accounts in Switzerland with considerable sums of money parked in them, money paid in by those who profitted from the great number of privatizations.

The government was a coalition composed of the ODS, the Christian Democrats (KDU-CSL), and the Civic Democratic Alliance (ODA). On Dec. 13, at the latest, a special party congress of the ODS will elect a new party leadership, which will then enter into negotiations with the KDU-CSL and the ODA in an attempt to form a new government. Finance Minister Ivan Pilip (ODS), who was most instrumental in toppling Klaus, has announced his candidacy against Klaus. Klaus, on the other hand, sees no other candidate to whom he could hand over the party, and so he wants to remain in the leadership.

President Vaclav Havel and Vice-Prime Minister Josef Lux (KDU-CSL) are advocating the nomination of a nonparty person to be the new prime minister. In that scenario, the governor of the National Bank, Josef Tosovsky, is thought to be one of the favorites. The opposition Social Democrats are pushing for early new elections, from which they would emerge as the victors. The next regular elections are scheduled for the summer of 2000.

The reputation of the neo-liberal Klaus has been very much sullied since the last parliamentary elections in June 1996, in which his party received only 29.63% of the vote. President Havel, in his weekly radio addresses, began calling for the resignation of the government as far back as May 1997. Klaus survived a vote of no confidence on June 10, by the slim margin of 101-99.

The International Monetary Fund's "model pupil" Klaus, so celebrated by the neo-liberals, wanted to turn the Czech Republic, for which he served as prime minister for five and a half years (before that he was finance minister), into a "market economy without attributes." He was convinced that he deserved the Nobel Prize for Economics for his performance. And, the Czech Republic was indeed praised as the "model reform country" up to very recently, and the country was rewarded with membership in the Organization for Economic Cooperation and Development (OECD)—the only central and eastern European country to receive that "honor." As things stand now, not much will come of the Nobel Prize idea.

Billions are being stolen

The severely ill President Havel, who is up for re-election on Jan. 20, 1998 for a new term of five years, remarked on the collapse of the Klaus government: "It is grotesque, that the Klaus government was toppled over a party-donations affair of 7.5 million Czech crowns, while billions are being stolen in the Republic!"

Neo-liberal Klaus had indeed turned the highly industrialized and technologically advanced Czech Republic into an Eldorado for those who "steal billions," for money-laundering and organized crime, where petty crime flourishes in the general atmosphere of corruption. Klaus's credo is, that he is not interested in the sources of the money, and that he cannot distinguish between clean and dirty money. The only thing that interests him is that money is invested in the Czech Republic. Many of the people who thought they would become prosperous by selling the stocks they had accumulated in the so-called coupon-privatizations, have learned their lessons in major cases of fraud committed by the large investment funds, the so-called "tunneling" of investment funds into foreign countries.

Production is collapsing

Worse yet, the industrial production of the country dwindled in the first two months of 1997 by 7%. The necessary infrastructure development is being squeezed at every turn. On top of that, despite strong interventions by the government to support the currency, foreign speculative pressures led to a de facto devaluation of the crown in May 1997, by some 10%. And, in early summer, one-third of the country was so devastated by floods—160 large firms and 10,000 small and middle-sized firms were directly affected—that there should have been an emergency relief and reconstruction program in order to rebuild these capacities. That political decision was never made.

Not surprisingly, the population is becoming dissatisfied. A protest was staged in Prague on Nov. 8 which, despite heavy rain, drew some 120,000 demonstrators, the largest since the "Velvet Revolution" of 1989. The rally was directed against the austerity policies of the Klaus government. It was organized by the Czech Trade Union Association, and it specifically targetted the cuts in social services and price increases for rent, energy, and public transportation. The prices for gas, electricity, and heating have been increased by up to 40%, while child-support funds and other social services have been cut. On July 1, when deregulation of rents went into effect, rents in Prague increased by some 100%, and in smaller cities by 25-60%. New and drastic price increases are scheduled to be put into effect in January 1998, which will eat away at real wages again. Gas and electricity prices are expected to increase again by about 50%; inner-city public transportation and railway prices are expected to increase by 30%.

A chance to change policy

The collapse of the Klaus government hopefully gives the Czech Republic an opportunity to change the direction of its economic policy and to finally develop its immense industrial potential adequately, under a new government, especially in view of its well-trained and skilled population, which has a very high level of general education and a long tradition in engineering and manufacturing. In 1996, the OECD reported in "Education at a Glance," that of total university graduates, former Czechoslovakia produced the highest percentage of scientific and technical graduates in the world, with 39% graduating in those fields. The emphasis on science and technical education, based on a system of apprentice schools, industrial colleges, and advanced education in technical universities, remains strong in the country. The nation can look back on a long and proud tradition (for example, Charles University in Prague was founded in 1348) as one of the key cultural, educational, and manufacturing centers in Europe.